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A REVIEW OF TORONTO FOOD COSTS

Have Food Prices Increased?

Recent publicity over rising food prices may have left some consumers confused and concerned. The frequency of food purchases makes consumers more aware of food prices than prices of other consumer goods and services. Consumers may wonder why food costs should increase in a country where food is so plentiful and agricultural surpluses a frequent occurrence. There's no doubt that food prices have been increasing. A dollar will not buy as much food as it did 10 years ago. However, since 1961 the cost of virtually all Canadian consumer goods and services such as transportation, housing and health has increased.

The change in the cost of consumer goods and services is measured by the Consumer Price Index. Using 1961 prices, Statistics Canada measures the percentage change in the cost of the same goods and services purchased by a particular group over a specified period.

The Consumer Price Index (CPI) for food measures the cost of food at home as well as restaurant meals. This index is the one most frequently quoted by the press. Restaurant prices account for 11.6% of the Food Index. The price increase in the restaurant portion of the Food Index is largely attributed to increases in the cost of labor. Changes in retail food prices are more accurately measured by the CPI for food, excluding restaurants.

From 1969 to 1971 the cost of certain consumer goods and services, for example, housing and clothing, has increased to a greater degree than food.

TABLE 1 Changes in selected categories of the Consumer Price Index for the City of Toronto

	1961	1969	1971	% Increase (1971 over 1969)
All items	100.00	124.1	129.4	4.3
Food	100.00	126.1	128.4	1.8
Food at home	100.00	125.2	126.1	0.7
Housing	100.00	118.0	123.5	4.7
Clothing	100.00	127.7	131.4	2.9

\*Source — Statistics Canada

The Consumer Price Index for the City of Toronto shows a 4.3% increase for all items with only a 0.7% increase for food, excluding restaurants.



## Your Wages

The take-home pay of the average Canadian, that is the amount left after deductions and income tax, has increased substantially since 1961. For example, between 1961 and 1969 the Personal Disposable Income Index increased by 93.1%. This would mean that the average Canadian with a take-home pay of \$3,000 in 1961 would take home approximately \$5,970 in 1969.

## Portion of Wages Spent on Food

The percentage of take-home pay the average Canadian spends on food is declining each year. While the percentage of take-home pay spent on food was 23.4% in 1961, by 1969 this percentage dropped to 18.8%. An hour's wage will buy more food today than at any time in the past as illustrated in the following table:

TABLE 2 Amount of selected foods which could be purchased with an hour's wage — Canada

Food	1946	1970
Pork Chops	1.9 pounds	3.1 pounds
Butter	2.7 pounds	4.7 pounds
Eggs	15	70

Canadians spend a smaller share of income on food than most other countries in the world.

Country	Number of hours of work required to purchase the same basket of foods
Canada	5
Belgium	12
France	18
Italy	24
United Kingdom	9.5
United States	5.9

## What happened during the Toronto food price war of November 1970?

In November 1970 the news of Toronto's food price war captured the headlines in leading Canadian newspapers. The radio, television and press coverage, together with the accelerated advertising programs of the chain stores, resulted in considerable confusion for consumers and concern on the part of the food producers and processors. The extent of price cutting, the length of the war, and the effect of such a war on the quality of food and service were seriously questioned by many people, including farmers, processors and consumers. To clarify the situation and determine whether in fact a price war was taking place and to what extent, the Ontario Food Council began a study of food prices in the major Metropolitan Toronto supermarkets using a representative food basket. The cost of the food basket was recorded from December 1968 to April 1972. It is important to realize that the Food Council basket did not include nonfood items such as soap, paper goods, etc.

## The Ontario Food Council Food Basket

The Ontario Food Council 147-item food basket was designed to represent the kinds of food purchased by the average consumer in Metropolitan Toronto. The basket is divided into the following groups:



*Meat, Poultry, Fish* — includes fresh, frozen and/or canned beef, pork, poultry and fish and eggs.

*Fruits and Vegetables* — includes fresh, frozen and canned fruits and vegetables.

*Cereals* — includes cereals, flour, baked products, bread and pasta.

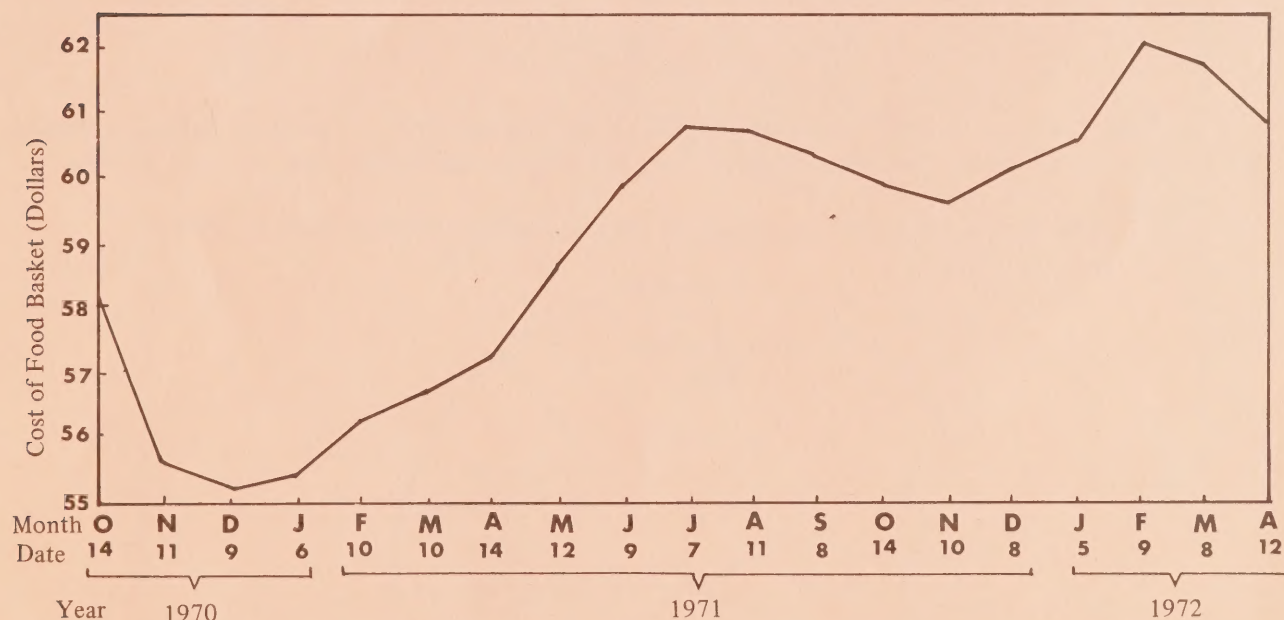
*Miscellaneous* — includes dairy products, fats and oils, sugar and syrups, jams, jellies, soups, beverages, snack foods and condiments (relishes, seasonings).

### Results of the Ontario Food Basket Study

Food prices normally fluctuate throughout the year, reaching their highest point in July and their lowest in December. The results of the Ontario Food Council study revealed that in 1969 the average cost of the food basket fell in January in response to a discount policy adopted by one of the major chain stores. Prices gradually climbed to their normal peak in July, then declined up to December 1969.

Prices followed their normal increase from January 1970 until July 1970 when the average cost of the food basket was 2.3% over July 1969.

**FIGURE 1** Monthly cost of food basket for Metropolitan Toronto major food chains  
October 1970 — April 1972



Prices began to decline in the early fall of 1970, taking a sharp drop between October 14 and November 25 in response to price reductions of a major chain store. The average cost of a food basket decreased by 6.9% during this October-November period.

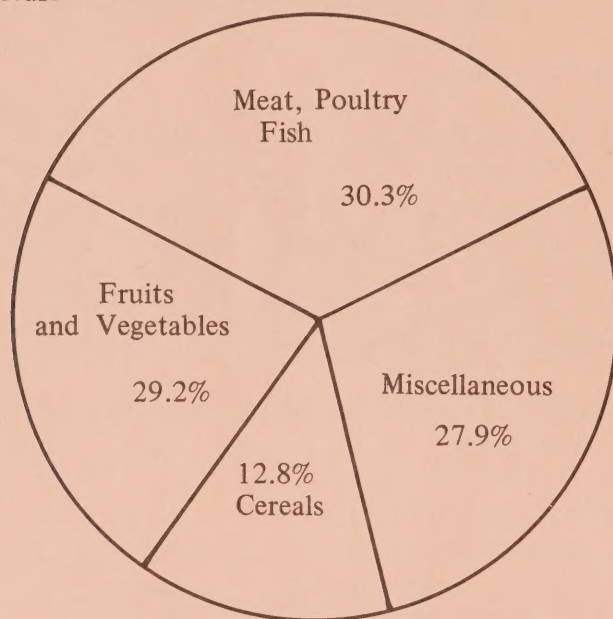
Prices, however, began to increase in mid-December 1970. By October 1971 prices were 3% over the October 1970 level. Food prices increased sharply in February 1972 and declined slightly in March and more markedly in April 1972 when another major chain store lowered prices.

### Distribution of Price Changes

From October 14, 1970 to November 25, 1970 the average cost of the food basket decreased by 6.9% or \$3.76.

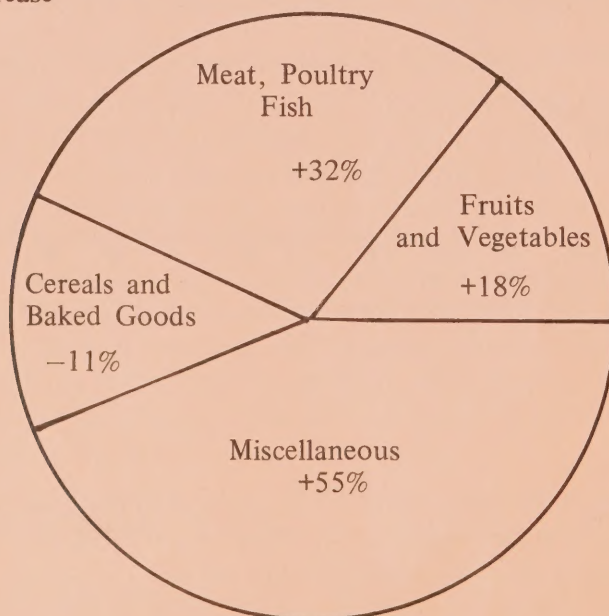
This decrease was not spread evenly over the four major food groups. The meat, poultry and fish group accounted for 30.3% of the price fall, i.e. the price of this group decreased by \$1.11, whereas the cereals and baked goods accounted for 12.8% of this decrease.

**FIGURE 2** How each food group contributed to the October 14, 1970 - November 25, 1970 price decrease



From October 14, 1970 to April 12, 1972 the average cost of the food basket increased by 4.5% or \$2.63. Again this price increase was not evenly distributed over all food groups.

**FIGURE 3** How each food group contributed to the October 14, 1970 to April 12, 1972 price increase

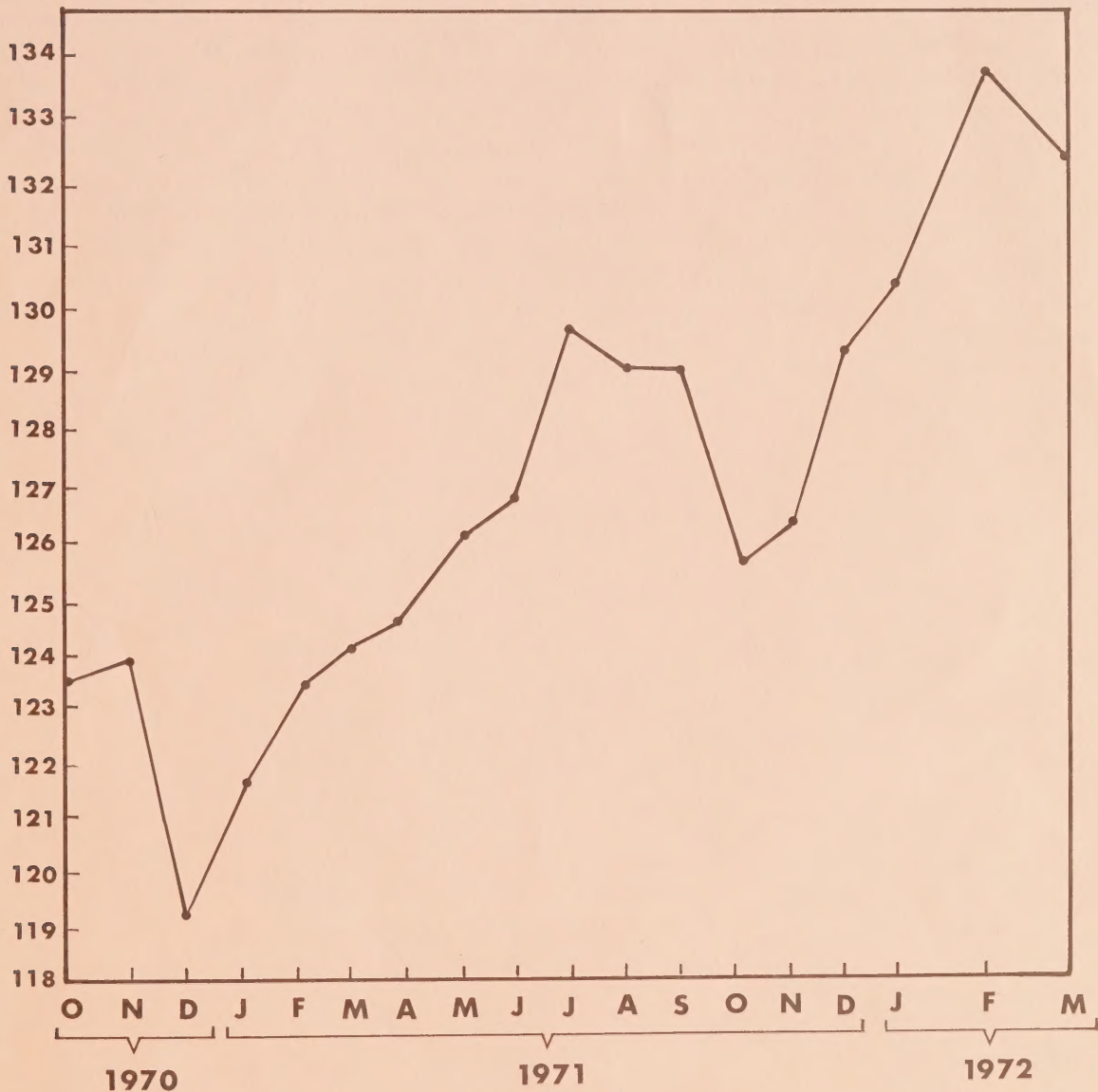




In this case the miscellaneous group accounted for 55% of the price increase; meat, poultry and fish for 32%; fruits and vegetables for 18%; while cereals and baked goods declined in price over this period.

The movement of the CPI (Toronto) for food at home closely approached the change in the average cost of the food basket purchased by the Ontario Food Council. The movement of the CPI (Toronto) for food at home for the period of October 1970 to March 1972 is illustrated in Figure 4.

**FIGURE 4** Monthly movement of Consumer Price Index (Toronto) for food at home (excluding Restaurant Index) October 1970 to March 1972.



## The effects of price competition among food retailers

Keen price competition among the major food chains is expected to continue. This form of price competition offers certain short-term advantages to price-conscious consumers by curtailing the acceleration of food prices. Over the past 2 years food prices have increased at a much slower rate than other consumer goods and services.

Price reductions may or may not be an advantage to the retailer. If it results in more customers and larger sales, he may, over the long run, increase his profit or at least prevent a serious profit decline. The food retailer, earning a net profit of 1 cent or less on every dollar of sales, relies on a high sales volume. A retailer who substantially increases the volume of sales and maintains his fixed expenses (e.g. taxes, equipment rental, etc) at the same level may offer lower prices and continue to operate at the same net profit. When the other chains meet these low prices, the individual chain store operator could face reduced net profits as increasing sales volume becomes unlikely. To maintain or further reduce prices the chain store operator may be forced to find alternate methods of promotion or reduce handling costs. The latter savings may be achieved by stocking fewer brands, using bulk-bin displays or offering fewer personal services, all of which help to lower either inventory and/or labor costs and/or operating costs.

A discount food store operates on large volume, limited brand choice and considerably reduced personal services. Few, if any, of the large supermarkets in Metropolitan Toronto are discounters, although several appear to be moving in this direction.

If the present price competition continues consumers may have to decide what they are willing to pay for choice and personal service.